Consider your Tuition Carry Forwards before Departure or Re-entry Years

If you have recently finished university or college, are thinking about a job in the United States or you are returning to Canada permanently, take a long look at the impact of your decision on any tuition credit carry forwards that you might have.

Normally, tuition credit carry forwards are great way to offset any income taxes paid in the years following graduation as you settle into a new career, however, that will not work very well if you have foreign income and are also claiming foreign income tax credits.

Illustration
Andrew has just finished a degree in software engineering and has accumulated 80K in Federal and Provincial tuition credits that he could not use in prior tax years and they are eligible to be carried forward to future years. He is considering a job in the United States that will last either one to three years.

Possible Outcomes

1) Andrew leaves Canada to take the job in the US for at least 2 years. He has no ties to Canada other than an insurance card, driver's license and a bank account.
2) Andrew plans to try out the new job starting in July and is uncertain as to whether he will stay at the job. His initial plans are to work for 1 year and return to Canada at the end of that year.
3) Andrew has a spouse that will stay in Canada OR has a home in Canada that he owns and will keep. He plans to work one year in the US and then reconsider the job for the long haul. He will not rent the home out while he is a way.

In the first scenario, Andrew's tuition credits are suspended until he returns to work in Canada as a resident. Since he plans to be gone for more than 2 years and has few significant ties to Canada, he is considered to be a US resident / Canadian non-resident for tax purposes while he works for the US employer.

In example 2 and 3, Andrew has lost his tuition credit carry forwards in a year that an alternative credit (foreign tax credits) are available. CRA requires that the tuition credits be applied FIRST against tax on earned income and exhausted before utilizing other sources of credits. Further, excess foreign tax credits cannot be carried into the future. Better to be a non-resident so those credits can be used later.

4) In scenario #1, say Andrew finds out he doesn't like his job in the US and returns within a year. CRA will not view this absence as being significant enough to allow for non-residency. Since he is still considered a resident, the tuition credits must be used first as they are in scenario 2-3 despite having eligible foreign tax credits to apply against his Canadian income tax.

Joseph Smith, TravelTax and TravelTax Canada